

DATA REVIEWED BY THE ALABAMA DEPT. OF INSURANCE

FOR THE APPROVAL OF HOMEOWNERS RATE FILINGS

EXECUTIVE OVERVIEW

Company Expenses Reported by Carrier:

- Commissions to Producers
- General and Other Acquisition Expenses (i.e Overhead)
- Premium Taxes, Licenses, Fees
- Net Cost of Reinsurance
- Permitted Profit Margin (set by the DOI at a maximum of 10% of premium)

Target Loss Ratio = 100% minus the sum of the Company Expenses above.

Premium and Loss Data Submitted by Carriers:

- 5 years of actual collected premiums statewide and by territory.
 - Collected premiums are then adjusted to reflect rate increases/decreases already taken over the past 5 years and changes (trend) in their policyholder profile.
- 5 years of non-catastrophe/non-wind losses incurred statewide and by territory
 - Losses are then adjusted for inflation (trend) that has occurred over the past 5 years.
 - Losses are adjusted via loss development factors to estimate final settlement value of any claims that are still open.
- Hurricane losses are projected statewide and by territory by the use of hurricane computer models, typically from AIR or RMS, based on the individual carrier's profile of policies in force in Alabama.
- Non-hurricane wind/hail (e.g. tornado) losses are either projected by tornado computer models statewide and by territory, or from a 20-year history of actual losses incurred by the carrier.

Determination of Rate Increase/Decrease Needed:

- Add up the 5 years of non-catastrophe/non-wind losses, projected hurricane losses, and projected non-hurricane wind/hail losses.
- Add up the 5 years of adjusted premiums.
- Divide the total losses by the total premiums to derive a Projected Loss Ratio.
- Compare the Projected Loss Ratio to the Target Loss Ratio above. If the Projected Loss Ratio is greater than the Target Loss Ratio, rates need to be raised so as to lower the Projected Loss Ratio. If the Projected Loss Ratio is less than the Target Loss Ratio, rates should be reduced so as to raise the Projected Loss Ratio.
- This process is followed to determine the overall statewide rate change as well as the change by territory.

Carriers filing rates for the first time in Alabama:

- Since these carriers do not have any actual Alabama premiums and losses yet, the above procedure cannot be followed.
- These carriers will typically look at the rates that the DOI has approved for other admitted carriers and devise their own set of rates equal to or below the other carriers' rates.